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27 January 1966

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MEMORANDUM FOR:

THROUGH:

Chief, International Division, ORR
Chief, Economic Research Area, ORR

SUBJECT:

Submission of Economic Chapter

ORR Project No. 40.4636

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1. The attached submission is the complete ERA contribution. The method of presentation, including the somewhat restricted vocabulary, follows criteria established by the Kenya submission.

2. For any substantive discussion of this paper please contact the author, extension 7717.

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Acting Chief, Africa Branch

ATTACHMENT:

As stated above

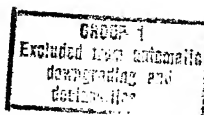
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I/AF Contribution to Economic Chapter

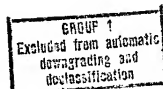
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A. General

Despite a degree of political unity, the economies of Tanganyika and Zanzibar are almost completely independent of each other. Both economies are basically agricultural and both have a subsistence sector which accounts for a large portion of the native African population, a quasi-subsistence sector which produces some cash crops, and a small but highly productive plantation sector owned and managed primarily by Europeans and Asians in Tanganyika and, prior to the revolution, by Arabs in Zanzibar. Recently Zanzibar has nationalized its land and has instituted a program of land distribution to native farmers.

Production of cash crops more than doubled in Tanganyika between 1950 and 1964. Although part of the rise has resulted from an increase in plantation output brought about by greater mechanization, the output of cash crops by small farms demonstrates Tanzania's increasing emergence from a subsistence economy. These small farms provide about 40 percent of total cash crops grown. One of the several factors responsible for this is the growth of agricultural cooperatives whose membership has increased 6-fold in the last 15 years from roughly 60,000 members in 1949 to 360,000 members in 1964.

Although most of the means of production in Tanganyika are still in private hands, the activities of the central government are becoming increasingly pervasive. The government sponsored cooperative movement whose purpose is to foster African control over certain economic activities

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of the nation, particularly in agriculture, is extending the government's influence considerably. Moreover, the government holds shares in many new and some old firms through the State-owned National Development Corporation and owns a large share of the Utilities and transportation system. Foreign investment, however, is encouraged and various safeguards are provided by law, among them repatriation and compensation for invested capital in the event of confiscation, to reassure foreign investors.

Zanzibar has moved much further toward a Socialist economy than Tanganyika. Following the January 1964 revolution, all land was nationalized, much of it being confiscated; most of the domestic and foreign trade has been brought under state control; and many Asian-owned businesses have been confiscated and replaced by state-controlled agencies.

B. Natural Resources

Tanzania's natural resources are rather limited, and recent exploration reveals little hope that proved reserves can be increased appreciably in the future. Mineral production now accounts for less than 5 percent of the monetary Gross Domestic Product (GDP) in Tanganyika. Diamonds, the most important mineral mined in the country, accounted for over three-quarters of the value of total mineral production and earned about US \$19 million in foreign exchange in 1964. Gold, the second most important mineral, earned US \$3.3 million in 1964. The metal content of the gold ores is declining, however, and the resulting rise in costs is

expected to cause a sharp decline in gold production. Other minerals mined in Tanganyika are tin, mica, salt, and some building materials, but sales were less than US \$1 million for tin and considerably lower for the others. Zanzibar's mineral resources are limited to small deposits of clay and limestone.

Three coal fields have been discovered in Tanganyika of which one, located in the Ruhuhu River Basin east of Lake Nyasa, reportedly contains 285 million tons of good grade non-coking coal and 115 million tons of low grade coals. The Kivira-Songwe Field near the northwestern end of Lake Nyasa is considerably smaller and probably contains only about one-tenth this quantity of good grade coal. The reserves of the third field have not yet been determined. All three fields are rather inaccessible and their exploitation apparently is not planned in the near future, although projects to exploit the Kivira-Songwe fields are considered from time to time. Phosphate deposits have been located east of Lake Manyara and deposits of iron ore exist in the southwest near Lake Nyasa. About 45 million tons of iron content have been proved and considerably more probably is present, but inaccessibility and problems of extraction and treatment have thus far discouraged mining operations.

C. Industry and Electric Power

Tanzania's rivers, particularly the Pangani in northeast Tanganyika, have considerable potential for generation of hydroelectric power. With the completion of the Hale hydroelectric station near Pangani Falls in

late 1964, hydroelectric capacity in Tanganyika reached about 41,000 kw which should meet current requirements of 200 million kwh a year. Diesel generator plants, used to generate about 100 million kwh a year prior to completion of the Hale power station, are a relatively high-cost source of electricity and many have gone on stand-by status as power output from the Hale station has increased.

There are two thermal power stations in Zanzibar, one on Zanzibar Island and the other on Pemba Island. The Zanzibar generating plant has a capacity of some 4,600 kw, and the Pemba plant only about 645 kw. Both are now operated by the State and are adequate to meet present requirements.

The industrial sector of the Tanzanian economy although growing fairly rapidly, still constitutes only 7 percent of the monetary GDP. Since independence in 1961, some 45 new industrial or commercial projects have been started and about 15 others are scheduled for the near future. These include textile and cement plants, oil and sugar refineries, sisal spinning mills, galvanizing and aluminum rolling mills, and food processing plants. Established industries still emphasize meat and food processing, and include also tobacco, clothing, paints, soaps, pharmaceuticals, plastic and rubber products, and various articles for domestic consumption. Under the Kampala agreement of 1964 signed by the three nations of the East African Common Market -- Tanzania, Kenya, and Uganda -- Tanzania was granted the exclusive rights to produce motor tires and tubes, radio sets, and aluminum products for the Common Market.

Aside from the African handicraft sector, there are about 1,100 firms in Tanzania employing about 23,000 workers. Most of these firms are very small, only 230 employing more than 20 workers.

Dar es Salaam is the main manufacturing center of Tanzania. Its major industry is composed of two meat packing plants processing 80,000 head of cattle a year, a tobacco factory, food and beverage plants, and factories producing soap, cans, shoes, plastics, razor blades, textiles, and paints. A cement plant with an eventual capacity of 130,000 tons a year was under construction in mid-1965, as well as a twine spinning factory, a pharmaceutical factory, and a truck assembly plant. In addition there is a small aluminum rolling mill, a railroad repair shop, and a small craft boat yard not far outside of town.

D. Agriculture, Forestry, and Fisheries

The economy of Tanzania is basically agricultural. Approximately 40 percent of the monetary GDP of Tanganyika and about 60 percent of the monetary GDP of Zanzibar are produced by the agriculture sector. Moreover about 85 percent of Tanganyika's export earnings and about 95 percent of Zanzibar's are derived from agricultural products. The principal crops and main source of foreign exchange are sisal, cotton, coffee, cashew nuts, and tea in Tanganyika and cloves and coconuts in Zanzibar. Tobacco, oil seeds, and pyrethrum are also important in Tanganyika. About half of the agricultural products exported by Tanganyika are raised on plantations and the remainder by small private farms now owned mainly by Africans. Zanzibar's

exports are limited principally to cloves, coconuts, and coconut products almost all of which are now grown by State farms since the nationalization of land in 1964.

About one-third of Tanganyika is suitable for agriculture although only 20 percent of the total land surface is being used at the present time. The 80 percent of the country not used for agriculture includes forests, woodland, and grassland of which some 28 million acres or 21 percent have been set aside as forest and game preserves.

Agricultural land lies mainly on the periphery of the country. The central portion of Tanganyika consists primarily of a plateau 2,000 to 4,000 feet high. Much of this land is semi-arid, covered with bush, and infested by tsetse-fly making it unsuitable for either crops or livestock. Although some of these handicaps may be overcome, the volume and distribution of rainfall places limits on the land suitable for cultivation and livestock.

The islands of Zanzibar and Pemba have a combined area of only 1,020 square miles (652,800 acres) of which about half is fertile. Approximately 40 percent is used for agriculture of which 75 percent is devoted to coconut and clove plantations. Most of the rest is planted to cocoa, citrus, rice, bananas, casava, pineapples, sweet potatoes, and chillies which are consumed primarily by the domestic economy.

Tanzania's fish industry produces principally for the domestic economy. In Tanganyika, both Lake Victoria and Lake Tanganyika are fished intensively

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and together produce about 65 percent of Tanzania's total catch; approximately 19 percent comes from other inland sources, and 9 percent from coastal waters. Zanzibar's fishing industry provides employment for some 9,000 fishermen, but the catch is relatively small -- in 1964 it constituted only about 7 percent of Tanzania's total of 128,000 tons.

Forests and woodland cover about 40 percent of Tanganyika of which approximately 35 percent or 50,000 square miles are owned by the central and local governments. Production of wood products, however, amounted to only about 1 percent of the monetary GDP in 1963, and, although Tanganyika is a net exporter of raw and partially processed wood products, it is a net importer of processed wood products such as paper and fibreboard.

Only about 1 percent of Zanzibar is covered by forests most of which are mangrove forests whose wood is suitable for only a limited number of applications. Wood produced in Zanzibar is used for fuel, poles, and as a source of tannic acid. Hard woods are used in small quantities in boat-building and furniture.

E. Employment and Labor

Slightly more than one-half the population of Tanzania is of working age, but of the 5.5 million people in this group, only about 360,000 were in paid employment in 1964. This very small percentage -- about 3.5 percent of the total population -- reflects the major role farming, especially subsistence farming, plays in the Tanzanian economy. About 250,000 wage

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earners are employed in private industry in Tanganyika and about 100,000 in public services. Almost 47 percent of the wage earning population is employed in agriculture, primarily on large plantations, and about 15 percent in manufacturing and construction. About 20 percent of the total employed in the major urban areas of Dar es Salaam, Tanga, and Mwanza.

The labor scene in Tanganyika has been relatively peaceful since the Trades Dispute (Settlement) Act in 1962 and the formation in 1964 of a single government controlled labor union, the National Union of Tanganyika Workers. In 1964 only 6,000 man-days were lost due to work-stoppages in contrast to 1,494,000 man-days in 1960.

F. Foreign Trade, Loans and Aid

Tanganyika's trade has been increasingly favorable since 1956 as exports to countries outside East Africa have risen by more than 70 percent to some US \$200 million in 1964 while imports have risen by only about 10 percent to approximately US \$123 million. Exports consist primarily of agricultural products of which sisal, cotton, and coffee constitute about 60 percent. Only about 15 percent is accounted for by minerals of which diamonds and gold constitute 90 percent.

The United Kingdom is Tanganyika's main trading partner, the source of about one-third of Tanganyika's imports and the recipient of about one-third of its exports outside of East Africa. Japan, in second place, accounts for about 17 percent of imports, mainly textile and consumer

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appliances. India and the US are also important trading partners, India taking nearly all Tanganyika's cashew nuts and large amounts of cotton while the US buys about half the coffee. Trade with Communist nations, although increasing, was only 5 percent of Tanganyika's total trade in 1964.

Tanganyika's trade with its two partners of the East African Common Market, Kenya and Uganda, accounts for about 15 percent of Tanganyika's total trade. Normally, Tanganyika's balance of trade with these countries is unfavorable. The Market is an important source of food, chemical products, clothing and footwear, metals and metal manufactures and, in 1964, mineral fuels and lubricants. Tanganyika's exports to Kenya and Uganda consist largely of foods, oil seeds, nuts, kernels, vegetable oils, fabrics, clothing and footwear, tobacco and tobacco products, and miscellaneous manufactured products. Approximately 85 percent of this trade was with Kenya and 15 percent with Uganda.

Zanzibar usually runs a deficit in its foreign trade. Food alone constitutes 40 percent of total imports and manufactured goods and machinery account for approximately 33 percent. Exports are almost entirely cloves and clove products and coconut products. A concerted effort is underway to achieve a more favorable balance of trade by increasing domestic food production, a goal which stands a good chance of success.

The UK has furnished most of Tanganyika's foreign aid in the past although its share has diminished as offers from other nations and international financial institutions have been used. Approximately US \$20 million was

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provided annually by the UK from FY 1962 (1 July 1961 - 30 June 1962) through FY 1964 mainly for the Three Year Development Plan. Other British aid has included technical assistance and a recurrent budget subsidy of US \$2.8 million for the Tanganyikan army. The UK has also committed US \$32.2 million for the first two years of the Five Year Development Plan, and Tanganyika expects a further pledge for the latter half of the plan period. Other aid include US \$1.5 million from the UK for obligations Tanganyika has agreed to assume for Zanzibar, US \$3.8 million from Canada mainly for housing and area surveys, and loans, grants, and obligations by the US of over US \$26 million. In addition there is a large US Peace Corps contingent in Tanganyika. Other loans have been made by West Germany, Israel, Netherlands, Norway, Switzerland, and Sweden. International Banks and Agencies have loaned over US \$40 million, and small grants have been made by the UN and private sources. Communist countries also have offered aid whose total is estimated at slightly under US \$100 million, but only a small part of this amount has been used as yet.

Until the January 1964 revolution, the UK had provided nearly all Zanzibar's foreign aid. Following the revolution, UK assistance was replaced by aid from East Germany and Communist China. Much of the Chinese aid is in the agricultural sector.

G. Budget and Finance

Tanzania has two budgets for the fiscal year: the recurrent budget for financing normal government operations and the development budget. Recurrent

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budget expenditures normally are funded by domestically raised revenue, except for certain defense expenditures which were assumed by the UK in the past. A large part of the development budget expenditures is paid for by foreign grants or loans. Recurrent budget expenditures in Tanganyika are expected to reach US \$100 million in Fiscal 1966 and development budget expenditures some US \$87.4 million. Some difficulty may be experienced in meeting the recurrent budget expenditures which are at least US \$2 million above expected receipts, and foreign assistance had not been secured to meet the Fiscal 1966 development budget at the time it was drawn up. This latest development budget is some 40 percent higher than in the previous year and may be too ambitious to achieve.

Zanzibar also has both a recurrent and a development budget. Zanzibar's recurrent budget has run deficits throughout the 1960's which, until the revolution, were partially offset by UK grants. Although the Fiscal 1965 budget did not show the usual deficit, the improvement was due to manipulation by the revolutionary government for propaganda purposes rather than to an improvement in Zanzibar's finances. Over 60 percent of Zanzibar's recurrent budget is financed by customs duties and most of the rest by fees and profits from government-provided services. Zanzibar's development budgets have been financed from local loans, external assistance and by recurrent budget surpluses in the 1950's before the annual deficits began. Proposed Fiscal 1964 recurrent expenditures were US \$1.6 million of which US \$490,000 was marked for agriculture and fisheries. Development expenditures for Fiscal 1965, which were to include spending under the Three Year Plan, are not known.

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Tanganyika's money and credit system is mainly dependent on monetary institutions based in Nairobi and London. The East African Currency Board, headquartered in Nairobi, issues the East African Shilling, currently valued at US \$0.14, and redeems it in sterling. The Board also performs certain Central Bank functions and acts as a clearing house for all commercial banks in East Africa. The commercial banking sector is dominated by branches of three British banks: Barclays Bank D.C.O., National and Grindlays, and the Standard Bank. These branch banks are able to provide a reasonably flexible money supply for short-term seasonal needs and a substantial portion of longer-term loans as well as to purchase a part of government bond issues. Their ability to perform these services is greatly enhanced by their being able to draw on the assets of their parent banks. In addition to these banks, there are several smaller banks. Other financial institutions include a Savings Bank, an Agricultural Credit Agency, the government-owned National Development Corporation of Tanzania (NDC), and the Tanganyika Development Finance Company Ltd. There is also a Nairobi stock exchange which deals in East African securities.

Commercial banking in Zanzibar is handled mainly by branches of two of the three British banks in Tanganyika: National and Grindlays, and the Standard Bank. In addition, there is a branch of the East African Postal Savings Bank that holds local deposits. Zanzibar's currency also is handled by the East African Currency Board.

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SOURCES

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